The Credit Union Tax Status

Credit unions have been exempt from Federal taxation since the earliest days of the tax code – nearly 100 years. The tax exemption was conveyed to support and sustain a system of cooperative financial services that would provide an alternative to the for-profit banking sector and promote members’ best interests. Removal of that tax status would threaten the survival of the nation’s 5,700 credit unions; it would erode the financial well-being of 110 million credit union members; and it would result in the loss of the broader benefits credit unions provide to society, such as promoting small business investment and financial literacy.

In today’s volatile world of financial services, credit unions continue to provide a steady, reliable, community-based alternative for ordinary middle-class Americans. Maintaining their current status will allow credit unions to continue to fulfill that role.

Credit Unions are Different than Investor-Owned Financial Institutions

- Credit unions are member-owned, democratically governed, not-for-profit cooperative financial institutions with no stockholders demanding a market rate return on their investment. Earnings are passed along to member owners rather than outside investors.

- The mission of credit unions is to promote thrift and provide access to credit for provident purposes to their members, especially those of modest means.

- Credit union executives are compensated fairly (not lavishly) and directors are generally volunteers.

- Credit unions remain relatively small, locally controlled institutions, despite consolidation. The typical credit union reports $31.2 million in total assets compared to $221.7 million at the typical bank. Banks dominate the financial services marketplace. In 2017, they held 75.4% of the market share of assets compared to credit unions, which held 7.4% of the market share.

The Public Benefits of the Credit Union Tax Exemption Far Outweigh the Costs

- The Office of Management and Budget’s most recent estimate of the credit union “tax expenditure” is $2.9 billion in 2017. This figure is expected to decrease by 40% (to roughly $1.7 billion in 2018) because of the 2017 Tax Cut and Jobs Act (TCJA).

- This pales in comparison to the nearly $25 billion in tax breaks U.S. banks will receive in 2018 alone due to the TCJA, which permanently reduced corporate taxes.

- The benefits that credit unions provide to members and others far exceed the credit union tax expenditure, amounting to an estimated $15.0 billion in 2017 alone. These member benefits
come in the form of lower fees, lower loan rates, and higher depository yields than other financial institutions.

- While credit unions don't pay corporate income taxes, they do pay taxes other federal and state taxes. Credit unions paid roughly $17 billion in taxes in the most recent tax year.

- Any new tax on credit unions represent a tax increase on the 110 million members of credit unions – who collectively paid an estimated $1.4 trillion in state and federal income taxes in 2016. Moreover, income taxes on these not-for-profit institutions would offset only 0.4% of the federal government’s budget deficit.

Credit Unions Foster Responsible Business Practices
- Credit unions have a moderating influence on bank pricing. CUNA estimates that bank customers saved nearly $4.2 billion in 2017 from more favorable pricing in areas with credit unions in the local market.

- For 21 years, American Banker published an annual survey, which consistently rated credit unions above banks in terms of customer service. As a consequence, banks have sought to emulate credit unions' customer service practices.

- The absence of pressure from stockholders for maximum short-term profits and credit union executive compensation packages that encourage risk-averse behavior lead credit union managers to eschew high-risk, higher return strategies, so credit unions maintain a lower-risk profile.

Credit Unions are Spurring Economic Growth and Strengthening the Middle Class
- In addition to the benefits credit unions provide member and nonmembers, they have a positive influence on the economy. CUNA calculated that in 2017 credit unions contributed $116 million in valued added or economic activity to the U.S. economy.

- Sixty-one percent of credit union members, who rely primarily on their credit union have annual incomes between $25,000 and $100,000.

- Consumers, particularly low-income credit union members, generally get better deals from credit unions than banks. A recent study found that banks collect an average of $218 in annual fees for low-balance checking accounts compared to $90 on high-balance checking accounts. The average charge for credit unions' low-balance accounts was only $80.

- Due to their lower risk profile, credit unions continued to lend during the recent financial crisis—even as other financial institutions failed or had to curtail operations due to damaged balance sheets caused by riskier practices leading up to the crisis.

- A recent Small Business Administration study found, “that credit unions are increasingly important sources of small business loans as a longer-run development and in response to fluctuations in small business loans at banks.”